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"Exploring the Dynamics between the Ethiopian Investment Commission (EIC), the Chinese Business Institutional Mechanism and Tacit Networks in Chinese Private Investment in Ethiopia", draft paper presented at ASAUK, University of Birmingham

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Exploring the Dynamics between the Ethiopian Investment Commission (EIC), the Chinese Business Institutional Mechanism and Tacit Networks in Chinese Private Investment in Ethiopia

My PhD thesis: The Dynamics of Chinese Private Outward Foreign Direct Investment in Ethiopia: A Comparison of Light Manufacturing Industry and Construction Material Industry

Not only interviews and questionnaire but also participation observation from both China's side and the Ethiopian government's side were conducted. For instance, I was the Chinese investment advisor from the Ethiopian Investment Commission, and part of my work was to observe the manner of EIC One-stop service station from the IPs, understanding constraints that Chinese investors encountered during their daily operation, and providing monthly reports to the EIC high officials. Meanwhile, I also helped to receive government officials, delegation and potential investors on behalf of Chinese private firms. By doing so, I can position myself at a multifaceted angle to perceive what's really happening on the ground and to provide a less biased and more nuanced picture.

The objective of this presentation

This presentation draws some of the preliminary findings from my past one-year fieldwork in Ethiopia (Oct 2017 -Sep 2018).

The empirical evidence demonstrates that the changing dynamics of Chinese private FDI in Ethiopia.

This presentation will look at the Ethiopian Investment Commission (EIC), the Chinese business institutional mechanism, and tacit networks to explore the dynamic interactions between multilateral stakeholders and its political, economic implications.

It is argued that Chinese investors respond actively and flexibly to the changes in the host country's national development strategy and economic transformation; however, how they achieved it and what's the hidden politics is highly dynamic and sophisticated. The asymmetrical power relations between the Chinese private sector and host country government implicates that.

How is the Chinese business institutional mechanism is formed in a particular way? What is the EIC's role in it? How do Chinese investors leverage their bargaining power and lobbying to the host country government? About what issues? What's the political, economic implications?

The interactions between the EIC, the Chinese business institutional mechanism and Chinese private investors have become more diversified and dynamic and generates the new contradiction, collaboration and conflicts. The management of Chinese private FDI in Ethiopia is a product of 'an ongoing learning process' which is developmental and progressive and it requires all stakeholders to be actively involved in and work closely and strategically.

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The agenda of this presentation

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Background

The presence of Chinese private OFDI in Ethiopia:

China has become the largest investor in Ethiopia with Chinese private enterprises (PEs) leading investment.

Mekonen Hailu, Communications Director at the EIC, said *'private Chinese firms' investment is the single largest foreign direct investment source to Ethiopia in 2017 with investment from Indian and Dutch firms following in second and third positions'*. (Xinhua,2017).

With the increasingly supportive 'Go Out' (zou chu qu) policy that the Chinese government is promoting, ferocious competition in the domestic market due to increasing globalisation and the experience and skills that Chinese private firms have accumulated, the nature of private OFDI in Africa is becoming far from one-dimensional and is growing increasingly dynamic.

Who are these players?

The emergence of a variety of Chinese private firms relocated their industrial capital in the form of OFDI to Ethiopia's manufacturing sector.

- At the early stage, majority firms were small and medium in scale and focused on Ethiopia's domestic market (such as textile, slippers, cement, steel rebar etc.),
- More labour intensive ones that focus on the export market with long-term relations with big brands from the global north invested in
- Strategic sector (such as the pharmaceutical firms such as Sansheng Pharmaceutical Ltd and Humanwell Ltd, which have been listed in the stock market).

Ethiopia is a quasi-developmental state, and the vision of the Ethiopian government is not static.

Commented [CW1]: Source: Xinhua (2017) 'Private Chinese investment hits 269 mln USD in Ethiopia in 2017' http://www.xinhuanet.com/english/2017-12/21/c_136843376.htm

Commented [CW2]: Dynamics and diversity of Chinese private OFDI needs to be emphasised. It is not a simple story.

Ethiopian government shifts from initial investment-driven initiative to later on industry parks-driven one (to start the pilot IP-Bole Lemi-I), and eventually brands-driven strategy (Hawassa IP with PVH).

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Analytical perspectives:

What's the Lobbying Mechanism?

The bargaining power between Chinese firms differs which determines the differentiation of the way they lobby to the host country government: some firms who invested in Ethiopia at the early stage have already built firm relationship with the corresponding government bodies and have the power to lobby to the government directly (such as Huajian International Shoe PLC; the Eastern Industry Park PLC; and private firms outside of the industrial parks, such as Polilolus PLC, etc), whilst the majority of SMEs are more likely to rely on collective force to lobby problems/constraints that they encountered.

- China Chamber of Commerce in Ethiopia (ECCC) (private, monitored by the MOFCOM)
- China-Africa Business Council (CABC) (All China Federation of Industry and Commerce)
- China Council for the Promotion of Peaceful National Reunification (CCPPNR)
- Eastern Industry Park Investors Association (EIPIA) (and other industrial park associations)
- Eastern Industry Park Committee (EIPC)

How Chinese investors bargain with Ethiopian government? About what issues?

The role of the EIC and its limitations

Alice Amsden's Reciprocal Control Mechanism theory: *"A control mechanism is a set of institutions that impose discipline on economic behaviour. The control mechanism of 'the rest' revolved around the principle of reciprocity. Subsidies ('intermediate assets') were allocated to make manufacturing profitable - to facilitate the flow of resources from primary product assets to knowledge-based assets - but did not become giveaways. Recipients of subsidies were subjected to monitorable performance standards that were redistributive in nature and results-*

oriented.

EIC is the government body... and it is the main drive that ties to discipline foreign investment and steer the way to which in line with its national political, economic development.

Policy and Regulation in Various Areas

The industrialization process of Ethiopia is still at an early stage, and the laws and regulations are

In the process of implementation and operation, enterprises also need to continuously persuade the host government and promote the formulation and revision of the corresponding rules and regulations. Moreover, the unequal power relations of the private sector has hindered the level of inclusion and influence in the in the host country's policy innovation.

However, lobbying at the local level is difficult and sometimes beyond the EIC's capacity.

Although the federal government has a strong political vision and executive capacity, it lacks effective cooperation mechanisms with local governments. Because the dialogue mechanism is not equal, if the company communicates directly with the local government, its appeal will be difficult to get timely response and resolution.

Moreover, because of the constitutional ...it is not appropriate or accessible for the Federal government to intervene in issues such as land lease happened in local/ regions directly. It creates contradiction: The Federal government has the executing capacity but cannot intervene due to the limitation while the local/regional government has the right but often is incapable of solving problems.

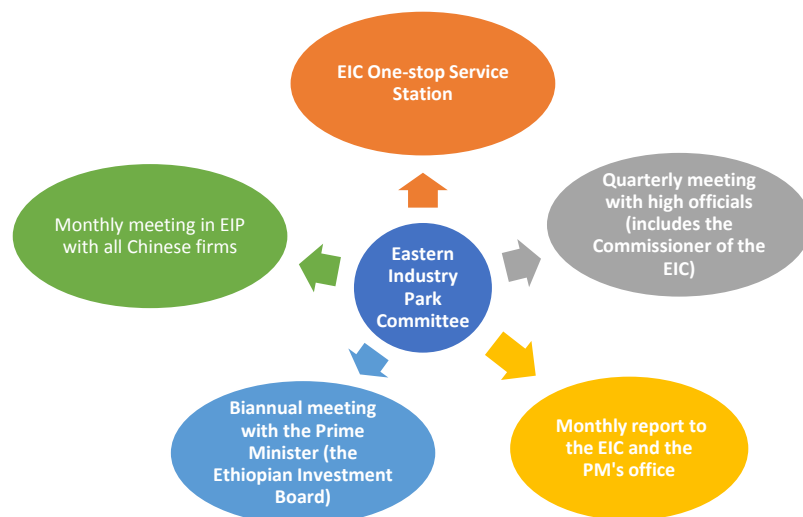
The EIC's limitation to manage and regulate investors (for instance, the EIP) (Interviewed with the EIC researcher Fekadu)

The EIP is a particular case that I want to show you today.

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Case Study: the Eastern Industry Park (previously called Eastern Industry Zone)

The business Institutional Mechanism of the EIP



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Export Targets Vs Reality

Most Chinese firms who invested in the EIP at the early stage (before 2013) focused solely on Ethiopia's domestic market, and most of them earned good profits.

However, Ethiopia's new policy requires firms to start export (it is especially the case for the light manufacturing industry). The EIC set the annual export target for individual firms within the EIP (for instance, 15% for the first year then 30% for the second year). Firms fail to meet the export target may not be able to renew their business license or have difficulty to access US\$ to import raw materials.

The invention of this policy created tension and many firms raised these problems in monthly meeting that EIP Committee chaired. EIP reported firms' concerns to the EIC high officials, the PM's office and corresponding department.

Some firms claimed that to access the US\$, they have to export a certain amount of their products even firms lost money from the export. Some firms

also told me that they export their products to Saudi Arabia then import them back to meet the export target that the EIC set

However, firms realise this solution is not sustainable in the long term and they started to explore overseas markets. For instance, East Spinning Printing and Dyeing PLC, a median scale textile firm invested in EIP before 2013 , In the beginning, they only sold their products to the local market, and now they export some 20% of products to Nigeria and Kenya. The GM has been to the US to negotiate with the trading company to set up an office there to enable conduct business and boost its export to the US market from Ethiopia.

Haibo Garment is a SME in the garment industry and focuses solely on Ethiopia's domestic market at the beginning. After negotiation with the EIC, it is allowed to register a new company and export its garment products (80% for the first year and 100% for the second year) meanwhile the old one can continue selling products in domestic market.

The EIP also changed its promotion strategy to attract export-oriented, labour intensive firms since then. Mr Lu claimed that the EIP already shifted from "zhao shang yin zi" strategy to "zhao shang xuan zi".

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Land Lease and Application of IP Proclamation

The EIC wrote a letter to President and asked him to help foreign investors to explicit their concerns to the local community. There is severe information asymmetry between foreign investors and the local community; local administration (local government) and the local community. It is suggested that foreign investors shall clear benefits that local community could get from foreign investment; meanwhile, the local government needs to be committed on land compensation, for instance, how locals will be relocated, how the tax will be used to develop the local community in economic and social terms (interviewed with Tekka, Deputy Commissioner at the EIC, Aug 1st 2018).

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Implications and Suggestions

- Social-cultural factors need to be integrated into a broader analytical framework (such as government policies and institution) to analyse economic development
- To strengthen the Private-Public Dialogue mechanism
- Sub-national context matters
- To enhance capacity at the institutional level is of great importance

The EIC is dedicated and plays a critical role in guiding, managing and facilitating FDI and ensures the injection of foreign capital is consistent with the national development plan and economic transformation.

The EIC recognises the importance of the Chinese private sector to Ethiopia's industrialisation and economic development. Private industry parks such as the Eastern Industry Park (EIP) and Huajian play a decisive role in Ethiopia's social and economic development. These Chinese private firms have their promotion strategy and channel to attract FDI. The EIC also learned experience from them. However, the EIC high official also pointed out some bad manners that Chinese firms have cannot be tolerated and suggested that foreign investors understand their role in a more comprehensive way.

EIC plans to set a Chinese desk in its headquarter to provide information, facilitating visits and coordinating between investors and government agencies for Chinese. Dr Arkebe suggested the Chinese government from Beijing to send a Chinese specialist and be based in the EIC. A high official from MOFCOM (Ethiopia) said that this expert is expected to arrive in Addis Ababa in Sep 2018. (interviewed with the government official from MOFCOM in Ethiopia, July 11th, 2018)

Although Chinese private firms are more flexible to respond and adapt to political and economic changes of the host country from the enterprise's level, they are fragile and passive in its adaption to the new investment climate due to the asymmetrical power relations with the host country government. Tensions such as export target is one example of it. The Chinese business institutional mechanism is helpful to bridge the platform and enables the Public-Private Dialogue between private investors and the host country government, however, it needs... to enhance the bargaining power from the private sector to be more inclusive in host country's policy-making and revision process. Moreover, the sub-national context matters. Although the Federal government shows its commitment, it is very limited responsibility that the EIC has to push local/regional government.

The process of such interactions act between stakeholders is developmental and progressive. However, it is crucial for all stakeholders to learn lessons from the past.

- To enhance capacity at the institutional level is of great importance.

The Chinese government should increase support and lead private enterprises to establish closer cooperative relations with the host country government and its corresponding departments to build a better public-private dialogue mechanism. For instance, to empower private institutes such as ECCC to play a more critical role in coordinating and facilitating the private sector to conduct business smoothly and sustainable with the host country will be helpful.

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Conclusion

China has become the largest trading partner and investor in Ethiopia. The recent FOCAC summit held in Beijing has further strengthened the China-Ethiopia ties for its comprehensive cooperation. Chinese private sector plays a critical role to fulfil China's political aspiration and economic interest of industrial capacity cooperation and strategic complementary.

EIP's case is a snapshot and showcases the partial picture of the dynamics between the EIC, the Chinese business institutional mechanism and tacit networks in Chinese private FDI in Ethiopia. The interactive acts between all stakeholders generate **new relations between the state and the capital, which is contradictory, conflictual but more collaborative.**

Chinese private OFDI in Africa manufacturing sector is a comparatively new and ongoing phenomenon. It is a learning process of all stakeholders to understand the dynamics and the nature of Chinese private OFDI in Africa continent.

How can both Chinese and host country's government agencies, and third parties (such as international organisations or NGOs) jointly form a particular institutional mechanism with Chinese investors to foster sustainable business climate. Again, it is an ongoing learning process for all of us.